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Economics in Culture Vs. Culture in Economics

Limits and possibilities of a scientific approach

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ECONOMICS IN CULTURE VS. CULTURE IN ECONOMICS
Limits and possibilities of a scientific approach

by Dr. Léonce Bekemans *

ABSTRACT

The purpose of this paper is to present a critical overview of the economic theories of the functioning, financing and organization of the cultural sector. To which extent should and can economic approaches analyze, explain and predict cultural development, production and distribution.

By culture, a slippery concept, I mean symbolic works produced in formally organized sectors of the economy, i.e. materials produced for an audience and distributed through established channels. In other words, I refer to institutionalized culture, i.e. the forms of culture that are supported, produced and distributed while resorting to formal organizations or markets. Within the domain of institutionalized culture, the focus mainly lies on the arts in the broad sense of the word.

The paper is divided into three main sections:

1. The relationship between economics and culture: two main categories of economic theory claiming to have some explanatory power: the economics of culture and the cultural economics. By comparing both approaches we will end by proposing some complementary research programmes.
2. The support for culture: we try to present the different economic rationales put forward to explain government intervention in the cultural sector (extrinsic vs. intrinsic arguments). None seem to provide the ultimate and sufficient reason; we need to go further than purely economic thinking to find satisfactory solutions.
3. The organization of the production and distribution of culture; we deal with two questions:
 - a. How can the varying prevalence of the nonprofit organization in the production and distribution of culture be explained?
 - b. what will be the behavioural consequences if cultural organizations are nonprofit as opposed to profit-seeking?

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I. Culture and Economy: cultural economics and the economics of culture

Of what can an economic approach of culture consist? Admitting that it is possible to observe cultural phenomena from an economic point of view does not yet signify that an economics of culture exists. In the absence of a definition of culture, (the debate should always remain open) the economist often reduces the field of investigation to a specific cultural field. It is not by accident that a more scientific approach of the relationship between culture and economy started with studies and analyses of well-circumscribed specific sectors. The scientific interest in culture originated from the field of arts, in particular the live performing arts. Still, the heterogeneity of the field, the diversity of the products and the logic of production often seem to indicate a variety of economics of cultural sectors with few common characteristics.

In social evolution, economics, as a discipline of thought, emerged in the late 18th century. The founding father of economics, Adam Smith, had a strong sense of the cultural matrix of economic phenomena. However, the loss of interest within the economic profession in the cultural matrix of its own discipline was a continuous development. By the late 19th century economics had split into two opposing camps based, at least partly, on conflicting views about the impact of culture on economic behaviour. This partially contributed to the fact that mainstream

economics lost its original sense of culture and became an abstraction free of culture.

Not all schools of Western economic thought lost sight of the role of culture. One school which maintained a link with culture was institutional economics. It includes the work of American economists such as John R. Commons, Thorstein Veblen, Wesley Mitchell, and Clarence Ayres, and the work of European economists (sociologists) such as Max Weber, Sidney and Beatrice Webb, and especially Joseph Schumpeter whose work stressed the influence of class, technological change and institutional setting on economic behaviour. According to institutionalists, economic behaviour is subject to the cultural and legal context of a given country and a specific period of history.

The impact of the institutionalist tradition has contributed to a contemporary split between what is called cultural economics and the economics of culture. Both are necessary for a complete economic appreciation of reality. Cultural economics is the study of the evolutionary influence of cultural differences on economic thought and behaviour. Accordingly, cultural economics assumes that economic behaviour varies according to the cultural context. The seminal and leading exponent of transdisciplinary, relativistic cultural economics is Kenneth Boulding (Boulding, 1972).

The economics of culture, on the other hand, is the study of the allocation of scarce resources within the cultural sector. It assumes that objective laws apply to economic behaviour not taking into account cultural differences. It places emphasis on the "scientific" or absolute nature of economics and on the application of abstract mathematical technique. The seminal and leading exponent of the positivist economics of culture is William Baumol (Baumol and Bowen, 1966).

The arts have caused almost as many difficulties for conventional economics and institutional economics as religion has. Even the mere idea of the penetration of hallowed regions of human endeavour by economists is often met with much scepticism. Efforts in recent years to establish and sustain economic analysis of matters associated with the arts, as represented by the work found in the Journal of Cultural Economics, appear to largely follow Baumol by applying conceptual and analytical tools from the inventory provided by conventional economics. Important insights have been and can continue to be secured from this approach.

In the following we tend to present an illustrative and necessarily incomplete survey of the treatment of culture in economics and some suggestions for possible associations between them in the form of complementary research programmes investigating culture in the economy.

A. Conventional Economics

Only since the late sixties conventional economics started to pay attention to the arts, in particular to the arts industries. This partly resulted from a renewed general interest in the arts, partly, probably from subtle changes in some economists' thoughts about the relative contribution of the arts to well-being in affluent societies, and partly from the eagerness of economists to apply their tools to hitherto untried areas and from the fact that arts administrators started recognizing the increasing economic pressures of the arts.

The economics of culture originated in a context of crisis, in a response to a social demand. About twenty years ago the professors Baumol and Bowen wrote a far-reaching report on the economics of the performing arts in the USA, "Performing Arts: the Economic Dilemma". The study was commissioned by the Ford Foundation in order to prove the necessary intervention of public authorities in the sector of the performing arts and subsequently, to indicate the need for subsidies from the federal government.

The results of the economic analysis were rather pessimistic about the viability of the performing arts in the long run. The problem is not only a financial one, but also concerns the efficiency and productivity of life performing arts organizations in a world of change and growth. These organizations, whether they are public, nonprofit or commercial, are confronted with

ever-increasing production costs. The tendency of costs to rise and of prices to lag behind is said to be an inescapable result of the technology of live performance. According to Baumol and Bowen the crisis will aggravate if no permanent solution is found to finance the deficit. The study played a significant role in the creation of the National Endowment of the Arts in the USA.

Also in Europe, against the background of economic budgetary constraints and policy changes, the concepts and analytical approaches of conventional economics have become important in contemporary discussions on public support of the arts, alternative public arts policies and arts administration. Financial problems in most European opera and theatre houses only strengthens the topicality of Baumol's approach.

A second explanation for the emergence and recognition of the economics of culture lies in the evolution itself of the economic science. In effect, economics with the recent developments in micro-economic analysis (e.g. the theory of time allocation, the new theory of the consumer) is going beyond its traditional formal framework. The intellectual imperialism of economists is one of the phenomena of our time; economics seen as a special case of a much more general "logic of rational action". Do the economics of marriage, or the economics of crime not already exist? To what extent can economics explore in unwonted places?

What has emerged are economics of the arts, (i.e. an economic analysis of demand and supply characteristics of various art industries), economics in the arts (analysis of resource allocation decisions in arts administration), and economics for the arts (analysis of the case for public support, the efficiency of various levels and types of support, etc.). Analysts have drawn on consumption, production, industrial organization and welfare theories, as well as on other concepts in the conventional inventory. The perspectives, analytical tools and empirical approaches of conventional economics have proved useful in providing insight into a number of matters.

Baumol analyzes the economic problems of the performing arts at a micro-economic level and in a perspective of economic dynamism. He imagines an economy with a growing disparity between a modern sector characterized by an increasing labour productivity and a traditional sector characterized by a constant labour productivity. The place of an activity in one of the two sectors is determined by its technology and its labour input. In some cases, labour is only a means in the production or an instrument intervening in the final product. In other types of production labour is an essential element of the product and constitutes an end in itself. It means that a reduction in labour input finally diminishes the quality of the product with an obvious impact on its consumption. Baumol verified this two-sector model, amply applied in the case of the developing countries, in the empirical

case of the live performing arts, i.e. theatre, opera, music and dance.

Because of its specific technology live performing arts cannot fully benefit from productivity gains resulting from new technology, an increasing capital stock, a better-educated labour force or economies of large-scale production. It can never reach the growth rates in productivity achieved by the economy as a whole. Today, playing an instrument or acting is still largely what it has been for centuries. From an engineering point of view, live performance is technologically stagnant. A fundamental characteristic of live performance is that the work of the performer is an end in itself, not a means to produce some good. The performer's activity is the consumer good which the audience purchases.

The immediate result of this technological difference between life performance and the typical manufacturing industry is that productivity is to a very high extent subject to change in industry, it is relatively immutable in the former. Whereas the amount of labour necessary to produce a typical manufactured product has constantly declined since the beginning of the industrial revolution, performing a Schubert Lied, a Verdi opera or an Ibsen production will always require the same amount of time and human effort.

The limits to technological improvement which characterize the live performing arts affect their costs of operation. The interrelationships of the various sectors of the economy, together with the inability of the arts to achieve a sustained increase in productivity, make ever-increasing costs an inevitable characteristic of live performance. Differential rates of growth in productivity within the economy imply for the relative costs of its various outputs.

The explanations by Baumol are fundamental for the analysis of an industrial society in which progress is measured in quantitative terms and in which free market competition functions without much intervention. However, in a post-industrial society with its growing service economy, the preponderance of the production of "non-productive" goods and services tends to change the rules of competition, which are put in quantitative and financial terms into new rules based on qualitative and political terms. Moreover, such a society is characterized by an increasing intervention of a variety of elements which are alien to the logic of the market economy (i.e. the state, donor foundations, sponsorship etc.). In view of changes in tastes and preferences of individuals and the state, it might eventually lead to a rather stable production level of the performing arts sector. Summarizing, the economic dilemma of Baumol is clearly set in a free market economy, whereas the survival of the performing arts refers to a post-industrial phase, where decisions are made in a

more complex setting of variables. Still, in most countries the phenomena of industrial society dominate the economic life of the performing arts.

Many consider the arts as something different from the goods and services on the market-place and as something which is not easy to apply to the laws of economic science. Sometimes the concepts and analysis of the conventional economics approach can be applied more neatly and less ambiguously to activities other than the arts. Moreover, we should be very careful not to fall into the trap of systematic quantification for the mere sake of evaluating the economic importance of cultural activities, and more generally, of a meaningless application of a scientific (economic) approach beyond its conceptual limits.

B. Institutional Economics

1. Institutional economics is almost as varied and as difficult to define as art. It is not a school of thought but rather a grouping of scholars identified by some more or less common characteristics. These characteristics include more attention to being paid to the formation of configurations of tastes and preferences in society, the longer-term dynamics of the economic system, and the roles that changing habits and beliefs and societal organizational structures play in explaining economic behaviour with societal dynamics. The leading American institutionalist economist in the post-World War II era is C.E. Ayres (Ayres, 1961).

As, until recently, was the case with conventional economics, institutional economics have concentrated on matters other than the arts. Their focal point of interest is the interdependence between culture and economy, considered as more or less simultaneous mutual determinants.

The arts and the cultural patterns of a society reflect tastes and functions. In a culture structured in a hierarchical manner, belonging to a social rank prescribes tastes largely through emulation among its members and proscribes them through strong or weak sanction for non-members. These arts and cultural life styles serve as stabilizers in patterns of societal organization. Moreover, the tastes and views involved determine an important portion of the alternatives considered and the criteria used by the various decision-makers in the economy and contribute to the determination of responses to the basic questions concerning allocation of what, how, where, and when.

There are at least three major interrelated problems with the institutionalist approach to the arts:

- a. How do artistic circumstances and changes interrelate with others in societal dynamics?
- b. If creativity in the arts has different relationships with economic processes than other areas of creativity, what are these relationships?
- c. What identifies human progress, what is social value, and how should it be estimated for decision-making purposes?

Summarizing, the institutionalist approach is much larger as far as its concept and analysis is concerned and cannot be easily reduced to quantitative magnitudes such as the conventional economic analysis with its limited purposes.

2. Neo-institutional economics designates a broad category which covers those contemporary economists who share the view that economic analysis should encompass an understanding and explanation of economic circumstances and processes in the context of the societal dynamics in which they arise. Galbraith predicted in 1973 that "over a longer period of time the arts and products that reflect artistic accomplishment will be increasingly central to economic development".

In some of the work of the neo-institutionalists, conceptions of man and society are being redefined and articulated in a manner which suggests different perspectives regarding the problems encountered in both conventional and institutional economics. In 1978 Kenneth Boulding published his book "Ecodynamics: A New Theory of Societal Evolution" where he sketched out "at least an approximation of a general system of the universe based on a synthesis of the contributions of many sciences". It is a general system of evolution. The work contains ideas which appear promising in their potential for a different but complementary approach to gaining insights into the arts in the economy and in the larger context of society.

C. Economics and the Arts: complementary research programmes

There are significant differences between the conventional and the institutionalist approaches in such matters as initial assumptions, perspectives, and methods. Still, it will be possible to perceive these differences as complementary, if it is recognized that the two approaches raise different questions and pursue them in different contexts, that both sets of questions are important, and that both contexts are of fundamental importance to social science.

Conventional analysis begins with existing preferences ("values") and institutional structures and studies their efficiency by using the relative value theory, in which the subjective values of decision-makers are transformed, on account of the choices made, into objective evidence of relative value magnitudes. On the basis of these indicators of preference structure, alternative changes in institutional arrangements can be evaluated for private or public policy purposes.

On the other hand, many institutional scholars consider a study on how existing values and preferences and institutional structures (beliefs and behavioural patterns) evolved, as a prerequisite to understanding contemporary economic arrangements and conditions. Consequently, a different set of fundamental questions is involved.

The main purposes of both approaches are the same: to obtain a better understanding of economic processes and to identify the choices and characteristics of the decision-making process most likely to lead to increases in human welfare. Since the questions differ, the research programmes differ as regards their contexts, approaches and methods, and foci.

In a sense, each approach begins at a different stage in the circular dynamics of economic processes. Conventional economics emphasizes the notion that an understanding of individual units and individual actions is the basis for understanding the larger organizational characteristics of the economy. Institutional economics emphasizes the notion that individual actions are to be understood by referring to the nature of the societal structures and circumstances in which they arise. Boulding's evolutionary theory perspective with its emphasis on learning and changes which generate changed circumstances, supports the view that an understanding of either societal dynamics or individual action requires an understanding of the interactive nature of both.

In this sense, the distinguishing analytic concerns of conventional, institutional, and neo-institutional economics could result in complementary research programmes designed to obtain a better understanding of economic circumstances and processes. Progress in each of the programmes can provide insight into the role of the arts, a "something different" category of human behaviour of growing importance to human

welfare, in those processes.

In this context it is good to briefly mention the instruments of analysis the social scientist has at his disposal. The range of cultural phenomena, the rate of their development, the role of the state in cultural development and the overall importance of culture to the future of society in relation to social and economic development, make a comprehensive information process based on actual experience and not on preconceived ideas, necessary. Facts and figures obtained by resorting to the social sciences might be useful instruments in analyzing cultural policy if we are aware of the many intangible values attached to culture. Facilities and resources need quantification and culture does not.

Although this operation may seem essentially philistine and anti-cultural, statistics on cultural activities or cultural expenditure may provide some indications of a country's cultural potential in a comparative perspective and they may even help to understand some trends in cultural development. This information may serve decision-makers in the political, economic and cultural field.

The comparison of the data available in various countries shows that the preparation of a framework for cultural statistics is only at an initial stage. Actually, statistical work is carried out in different areas of operation (Girard, 1983):

a. The setting-up of a system for collecting cultural statistics (e.g. international or national cultural statistics on public reading or on cinema attendance). Activity/user or activity/inhabitant ratios provide a basis for a comparison between countries and may be useful for cultural policy makers.

b. An analysis of financial flows. The most important cultural statistics for governments are the financial flows, particularly public expenditure at national, regional and local levels, household expenditure, public organizations, nonprofit institutions and profit-seeking firms.

For the government it is important to obtain a clear idea of how public cultural expenditure compares with other sources of funds and to ascertain whether or not the final distribution reflects the cultural priorities set. The most important indicators are the following: the cultural budget of the state as a percentage of the total budget and of national income; the total national expenditure on culture as a percentage of national income; expenditure by the state, regional and local authorities, industries, associations and households as percentages of total national expenditure on culture; expenditure on different activities as percentages of expenditure incurred by the various economic agents; the ratio between operating expenses and capital investment; the ratio between subsidies and direct expenditure; the cost of the various activities per inhabitant and per user.

c. The statistical study on the professions and occupations connected with culture, the number of personnel in each field of activity, age pyramids, incomes, opportunities for students from specialized schools. Data on professional cultural workers are hard to obtain. It is difficult to exactly pin-point who these workers are. If governments still have the task to protect the artists, occupational statistics might provide information about their socio-economic conditions.

II. Support for Culture

1. In the debate over public support for culture, in particular for the arts, economists have provided different possible rationales to justify government intervention (Blaug 1976; Hendon and others 1980; Leroy 1980). The search for a scientific justification of government support to the arts is a challenging one in democratic societies, where any redistribution of resources solely on grounds of taste is generally considered illegitimate. This is especially true when the redistribution favours a relatively wealthy and well-educated minority, as is the case of the arts. In the economics of arts literature a variety of arguments is put forward which are firmly fixed in economic analysis and do not involve a departure from democratic ideals, although the results are not always satisfactory.

The search for "fresh" justifications of sustaining support to culture must be seen in the perspective of uncertain prospects

for further growth in public expenditure on culture. An economic approach is said to provide value-for-money arguments to the decision-maker in the general and cultural policy field. In general economics literature, two basic grounds can be found for government support to unprofitable activities.

The first ground for government intervention in the economy is inequality of opportunities. In our economies it is assumed that the best allocation of resources is determined by the free market. However, it is generally agreed that no market test needs to support the flow of public funds intended for the opening-up of opportunities for the impecunious. As the market reflects the preferences of individuals measured according to their purchases which are based on the logic of rational action, the allocation of resources is determined by the income distribution. However, the affluent consumer has more influence on the course of allocation than a purchaser with less financial means. Therefore, government funds directly or indirectly intended for promoting equality of opportunities are viewed as a means for correcting the market mechanism.

A second legitimate ground used to justify government expenditures involves the category of commodities and services which the economist calls "public goods". The provision of public goods cannot be entrusted to market forces only. Although public goods cannot pass the market test, it does not follow that the general public does not want such items. Even though consumers

cannot be forced to pay for them, they may consider them well worth their cost. In that a case it is the normal commercial mechanism and not the consumer demand which has failed to function. Therefore, a government's decision to supply a public good, may be the only way to fulfil the wishes of the consumers. Public support is then justified as the only available means to make demand effective.

The situation is a bit more complicated in the case of mixed goods and services which have characteristics that are partly private and partly public, such as education and culture. Unlike pure public goods, mixed commodities can be expected to cover part of their cost because they are sold to the public. One can charge a price resulting from the direct benefits which flow from the provision of facilities for higher education, health care or restauration. of inner-cities. This is possible because the consumer can be excluded from the enjoyment of direct benefits if he does not pay the tuition, fee or rent. The consumer cannot, however, be excluded from the indirect benefits of mixed commodities, since these are inevitably available to all members of the community. Therefore, the price of quasi-public goods may not be high enough to cover their cost of production. In this case, failing the market test does not necessarily imply that the goods are not wanted; it merely reflects that commercial standards of valuation cannot be applied. Public support may then be a means to make demand effective.

2. If the performing arts are mixed commodities which produce direct benefits for the community as a whole, government support of the arts might well be completely consistent with the desires of the entire community. We propose to take a look at the existing literature in order to assess the validity of arts as mixed services. We therefore introduce a conceptual framework for examining scientific (economic) explanations of government support to the cultural sector, particularly in the light of the heterogeneous and ambiguous objective functions of the state.

Two types of rationale for subsidizing cultural expression and development can be identified. Arguments of the first type are based on grounds extrinsic to these arts per se. The second type of arguments attempts to justify subsidies on the basis of the intrinsic merits of the arts. It will be argued that neither entirely extrinsic nor intrinsic arguments can justify government support to the arts. Purely intrinsic arguments embody values which conflict with those of a liberal democracy, while purely extrinsic arguments are usually insufficient for a decision.

a. Most extrinsic arguments refer, either explicitly or implicitly, to market failure in the technical (Pareto) sense. A number of economists believes that the market mechanism does not function properly in the case of the arts because of the existence of externalities, i.e. social benefits exceed private benefits. If one agrees that the performing arts confer general benefits on the community as a whole, one will have to conclude

that partly, and perhaps for a large part, the arts are public goods of which benefits demonstrably exceed the receipts one can hope to collect from the box office.

Social benefits which are often mentioned in economic literature on the arts can be summarized as follows:

- the prestige resulting from cultural activity. The availability of fine orchestras, opera houses or ballet groups are a prime source of satisfaction, also for persons who themselves have no desire to attend cultural events.
- the advantage that the availability of cultural activity confers on business, with a possible impact on tourism and employment possibilities.
- another type of social contribution made by the performing arts involves future generations (cf. preservation of the cultural patrimonium, improvement of architecture etc.)
- another type of indirect benefit provided by the arts is their educational contribution to the general development of the community.

The conclusion is rather obvious: the free market will fail to achieve an efficient allocation of resources in the case of public or semi-public goods and services, exhibiting externalities. Support for the arts is therefore justified from an economic point of view.

Apart from the public good argument (i.e. art products are marketed in divisible units to buyers but are often consumed freely) it is also argued in the literature that art products produce another category of externalities which justifies state support: development costs of artistic productions are high and the artists do not have property rights for the spin-offs of the artistic creation. In this respect the degree of excludability is rather low (i.e. translations, variations and other derivatives of works of art: popularizing reproductions, the influence of the artist on other artists, applications in commercial design; the reproductions of views inherent in works of art; social functions of the arts). Important in this perspective is the distinction between artistic endeavour as the constituting or generating public goods and the economic dilemma of artistic organizations as explained by Baumol.

At the conceptual level, the requirement for market inefficiency as a necessary condition of state intervention is very strong. At the operational level, however, it is observed that the state often acts on the basis of criteria other than market failure. In other words, the state cannot claim that inefficiency in markets for the arts justifies the decision to intervene in these markets. It means that market failure arguments alone cannot justify subsidies to the arts, although they can provide some reason to support the arts. In short, purely extrinsic arguments usually fail as justifications for state subsidy of the arts

because they invoke only general value premises. There is however no reason why extrinsic arguments cannot be used in a justification as long as they are consistent with other reasons put forward.

b. Intrinsic arguments center on the concept of "merit good", a quasi-economic concept. The arts are said to be a necessary input for the cultural setting of a society. It implies that a society having the arts is in some sense qualitatively superior to one not having them, and that such quality is an increasing function of art supply and consumption.

The reasoning is set in a dynamic perspective. Culture is considered both as what a society is from a historical point of view and as an actually existing consumption good of society determined by the changing societal structures. The link between the two expressions of culture is obvious: goods which satisfy demand for consumption represent what a society is. The only difference with other consumption goods lies in the time perspective.

According to the 'merit good' argument the market mechanism does not function sufficiently in favour of artistic production (as is the case with scientific production). Because the market only reflects the consumers' preferences at a given moment, merit wants will not be satisfied. In other words, the appreciation of cultural development and artistic expressions often requires a

learning process of interaction between cultural producers and consumers. This type of argument concerns the education of minors and, resulting from this, the satisfaction derived by the present community of economic decision-makers from conferring benefits on the future generations. The logic of this argument is based on the hypothesis that a taste for the arts is instilled by early experiences.

Government support is then considered as the financing of an investment in human capital (cf. analogy between culture and education): investment in culture, not as a response to an existing demand but as an anticipation of a possible future demand. The creation of this potential demand is dependent on existing cultural supply, and therefore the justification for government support.

Given necessity of and state responsibility for the quality of life, the intrinsic argument is said to be sufficient for state intervention in the art markets (assuming that intervention can increase art supply and consumption). This conception of state support is paternalistic and its effect is a redistribution of resources among individuals and groups of individuals on grounds of taste.

A second element in the intrinsic argumentation is given by Scitovsky. "If anything is wrong with the arts, we should seek the cause in ourselves, not in our economy". The economic

difficulties of the arts have more to do with the consumers' individual preferences as revealed on the market place than with our economy. In his book, "The Joyless Economy: An Inquiry into Human Satisfaction and Consumer Dissatisfaction" (1976) Tibor Scitovsky argues that narrow individual rationality is a major source of the problem and "that the remedy is to move to a higher or social rationality...". He further argues that the nature of technological advance has been such that the cost of producing "novelty and its stimulus" has grown relative to that of producing comfort. Moreover, the choice between comfort and pleasure is not essentially an economic matter, in spite of the budgetary consequences for the individual concerned.

According to Scitovsky none of the (extrinsic) standard arguments in favour of government financing is really applicable to the arts: the arts are not a collective good which can be provided more cheaply and efficiently by government nor are subsidies a suitable means to reduce income inequalities.

The only valid argument for government aid to the arts is said to be a means of educating the public's taste. It is assumed that the public will benefit from a more educated taste. Cultural development and artistic expression need to be favoured for their intrinsic characteristics; according to Scitovsky this can only be done efficiently from the demand side.

Although the socio-economic dimension of the demand is an important element in the analysis, supply of as well as demand for culture determine the dynamic interplay between (social) production and (social) consumption. It is true that our mass production society is biased against minority needs and tastes and that the enjoyment of the arts has usually been the privilege of a small elite. Summarizing, intrinsic arguments provide some rationale for the states' responsibility to provide favourable conditions for cultural development, artistic expression and their appreciation. This may, however, have some political implications.

c. In short, extrinsic arguments usually fail because some rationales apply equally to commodities, other than the arts which are not supported by the state, while entirely intrinsic arguments fail because they result in dictatorial assertions on the quality of various tastes. Therefore, it seems necessary to try to connect a value on the intrinsic desirability of the arts with some extrinsic reasons to construct a legitimate justification. Only by sharply dividing the why and the how, the economist will be able to legitimately engage in prescriptive subsidy analysis if and only if the policymakers' preferences are known.

3. Having reviewed the economic explanations for government support to the arts, we can draw certain tentative conclusions:

- At least according to economic theory, art goods themselves are not pure public goods. In policy terms, the conditions of supply may be made public, but economic theory is clear on the definition of a public good and on the problems of resource allocation.

- In economic theory a necessary but insufficient condition for pure public good is that it can be consumed jointly. The exclusion principle says that the product can be provided in separable units to various consumers. Since admission to an artistic event can be provided in separable units, the exclusion principle is operable in the arts.

- Economic theory clearly states that inefficient allocation of resources will exist in the case of a jointly consumed good if a free rider (concealed demand) is possible because of the exclusion principle or if the suppliers cannot sufficiently meet the collective demand in order for the product to be provided in sufficient quantities.

- The 'merit good' argument is a political argument, not an economic one. Public support to the arts must show that the public interest is served directly or that the special interests served are accepted as desirable social objectives.

- Market failure applied to the arts is really a 'merit good' argument: demand for arts ought to be greater or supply ought to be greater. Actually, in some instances the market is not failing; rather it is simply not providing the market solutions.

- The more definite externalities generated by the arts usually flow to special interest groups.

All these conclusions call for an awareness of the limits of a scientific approach to culture as well as for prudence in the application of economic reasoning in a sector characterized by creativity and diversity.

If we leave out purely economic reasoning, we will still be able to consider the state as, basically, an agent of regulation and reproduction in our Western societies. According to the varying economic and political systems the state also intervenes in the cultural field. In an analysis of different political traditions Chartrand presents an interesting fourfold taxonomy of different roles of the state in supporting the nonprofit arts (Chartrand and McCaughy 1985). These roles are now converging. It is argued that political tradition often plays a more significant role in government support to the arts than economic rationality. It certainly demonstrates the influence of cultural and political differences on the economic (financial) behaviour of the state.

1. In the USA political tradition has led to a separation between church and state, to free market competition and to private philanthropy. From the American experience, a distinct role in art funding can be identified: the "Facilitator". The government funds the arts through tax expenditures made on behalf of individual and corporate donors, i.e. donations are tax-

deductible. The state supports diversity within the nonprofit amateur arts and the fine arts. The status of the artist is determined by private donors.

2. In the UK and the Commonwealth, a tradition of constitutional monarchy and common law has led the government to distance itself from the arts in order to protect them from direct political interference. Distancing an activity from political influences is the "arm's length principle". It is a general public policy principle aiming to avoid undue concentration of power and conflict of interests, in both the public and private sector. Accordingly, its application to arts funding is only an example of a general public policy principle being applied to a specific policy issue.

From the British experience, one can identify the second role of the state in art funding, the "Patron", which funds the arts through arm's length arts councils. The government determines the aggregate level of support granted to the arts. The state tends to support professional excellence in the nonprofit fine arts. In the Patron state the status of the artist is determined by peer evaluation.

3. The Western European tradition of arts funding has been interventionist, reflecting the role of the medieval church and the absolute monarchs of the 17th until the late 19th century. Those monarchs established national artistic institutions, and

from this experience one can identify the third role of the state in supporting the arts: the "Architect". The government funds the arts through a Ministry or Department of Culture. Granting decisions are made by bureaucrats. The state supports community standards in the amateur arts and the fine arts as part of its social welfare policies along with health, education etc. The status of the artist is determined by membership in official artist unions.

4. The Czarist tradition of autocracy combined with Communist ideology has led most Communist countries to fund the arts through direct ownership of the artistic means of production. From this experience one can identify the fourth role of the state in supporting the arts, the "Engineer", which owns all the means of artistic production. The state supports political standards of excellence and as such does not support the process of creativity. Funding decisions are made by political commissars to further political education, not artistic excellence. The status of the artist is determined by the Party.

We may conclude by positing a permanent government responsibility in the culture field. The role of the state must be confined to encouraging cultural development by creating favourable conditions while safeguarding the freedom of artistic expression. In pursuing this, governments can adopt legislation and take measures which have an influence on the social and economic situation of artists. Guaranteeing the social and economic

position of the artist and safeguarding the freedom of artistic expression are reasons which justify legislation in the cultural field. The considerable and increasing economic importance of culture, the increase in non-working time and the recent trend to make culture more marketable, also call for legislation in order to safeguard the objective conditions according to which scarce resources can be fairly (in the economic sense) allocated among all sectors of cultural activity.

III. Organization of the Production and Distribution of Culture

A. Economic explanations of the prevalence of nonprofit cultural organizations

1. Serious work on the economics of the nonprofit sector began in the early 1970s (Hansmann 1987; Powell 1987; Rose-Ackerman 1986; Weisbrod 1977 and 1988). Only since recently has the literature on cultural economics dealt with the question of organizational structures of the production and distribution of culture, in particular the prevalence of nonprofit cultural organizations (DiMaggio 1986; DiMaggio 1987; Hansmann 1981).

Broadly speaking, in the past years two formal economic theories have been advanced to explain the existence of the nonprofit sector:

a. the market failure/government failure theory

This theory considers the existence of the nonprofit sector as the combined product of market failure and government failure, i.e. of inherent limitations in both the private market and government as providers of collective goods (Weisbrod 1977). Collective goods are products or services which, once they are produced, are enjoyed by all people whether they have paid for them or not. Providing such goods exclusively through the market will ensure that there is only a small supply of them since few consumers will volunteer to pay for products they could enjoy without having to pay. With the market demand being low, producers will produce less of these goods or services than the public really needs or wants. This problem is commonly referred to as the "free rider" problem, and in traditional economic theory it serves as the major rationale for government intervention. Since government can tax people for producing collective goods, it can overcome this market failure.

However, the government, too, has certain inherent limitations as producer of collective goods. It is most important to consider that in a democratic society it will produce only that range and quantity of collective goods having a majority support. This will of course lead to some demands not being met. A nonprofit sector is needed to meet such demands for collective goods. So, according to the theory nonprofit organizations exist to supply a range of collective goods desired by a segment of a community but

not by a majority. In other words, nonprofit organizations provide collective goods and are financed by voluntary donations from people dissatisfied with low levels of government activity. As a result the more diverse the community is, the more extensive the nonprofit sector it is likely to have, will be.

b. The contract failure theory

The second broad theory of the nonprofit sector attributes the existence of nonprofit organizations to a different kind of market failure, i.e. contract failure and information asymmetries (Hansmann 1981 and 1987). This theory emphasizes the tasks which nonprofit organizations perform better than profit-seeking firms.

The central notion here is that in the case of some goods and services, the purchaser is not the same person as the consumer. In these circumstances, the normal mechanisms of the market, which involve consumer choice on the basis of adequate information, do not apply.

Nonprofit organizations will emerge in situations where the consumers feel unable to accurately evaluate the quantity and the quality of the product or service. On account of the distribution constraint (i.e. it prohibits the distribution of residual earnings to persons who exercise control over the firm), the nonprofit organization offers the consumers the advantage of the provision of higher quality services.

Nonprofit organizations as a group share at least two basic economic characteristics: 1. they do not obtain any pecuniary return on invested capital and 2. they claim to serve some social purpose. These two features are not completely independent. The significant point is that the objectives of the typical nonprofit organization are by their very nature designed to constantly keep the organization on the brink of financial catastrophe; for such a group the quality of the services which it provides becomes an end in itself.

Nor only through its quality aspirations do the social goals of the nonprofit enterprise contribute to its financial situation. The concern of the typical nonprofit organization for the extent and composition of its clientele often causes operating revenue to be lower than if services would be priced to achieve a simple profit-maximization goal. In short, a low price for the product of a nonprofit group is normally an inevitable consequence of its objectives.

The desire to provide a product of as high a quality as possible and to distribute the product in a manner other than that maximizing revenue, creates another unusual situation. For such an enterprise a substantial increase in the demand for its product may well worsen the organization's financial health.

2. It is apparent that all of the standard problems of nonprofit organizations beset the performing arts. Today the live

performing arts, including orchestral music, opera, theatre and ballet, are for a great part the product of nonprofit institutions. However, at the same time, there are still some segments of the performing arts that are strongly profit-seeking: some sectors of the music industry are almost entirely proprietary; book publishing is predominantly proprietary, etc.

From the data we may conclude that the relative importance of the nonprofit form varies less between the artistic media (visual, musical, dramatic) or organizational functions than within them.

Most arts industries perform both profit-seeking and nonprofit activities: scholarly and poetry presses in the book publishing sector, classical music producers in the music industry, museums and commercial art galleries in visual arts. It should not be forgotten that in the past, profit-seeking institutions were a rule rather than an exception in the performing arts; usually, not only serious theatre but even symphony orchestras were proprietary. The dominance of nonprofit institutions in the cultural sector is largely the product of recent decades.

This leads us to an inductive summary with three working hypotheses:

1. Labour-intensive cultural activities tend to be organized in the nonprofit form, whereas those that are capital-intensive are more often organized on a proprietary basis.

2. Cultural activities associated with high-art forms tend to be organized in the nonprofit form, whereas those that are associated with popular culture are more likely to be organized on a proprietary basis. The high-art forms are particularly labour-intensive, relatively unlikely to use media technologies for distribution, and thus unable to realize substantial economies of scale.

3. Within the non-commercial sectors, cultural activities which serve large publics or which are closely linked to the official aims of public education, tend to be organized as public agencies, particularly libraries and history museums, whereas activities with smaller audiences or less clearly educational purposes tend to be organized as nonprofit agencies.

In the following we review the main economic approaches explaining the organizational structure of the production and distribution of culture.

- Baumol's cost disease

The conventional explanation for the prevalence of non-proprietary organizations in the cultural field is that there are no profits to be made. Baumol analyzes the prospective developments on the cost side by looking at the implications of differential rates of growth in productivity within the economy. In an economy divided into two sectors, one in which productivity is rising and another where productivity is stable, it is apparent that the live performing arts belong to the constant

productivity sector of the economy.

According to the classic exposition of this view (Baumol and Bowen 1966), the arts are a service industry and, as such, are highly labour-intensive. In contrast to the situation of manufacturing firms, which can increase productivity by implementing technical innovations, productivity increases in the field of arts are limited. The theatre, symphony orchestra, chamber group, opera, dance, all can serve as textbook illustrations of activities offering little opportunity for major technological change.

Cultural organizations operate in an economy having a large manufacturing sector. As productivity in manufacturing rises on account of improvements in production efficiency, manufacturing wages increase. Because arts and other service providing organizations compete for labour with manufacturing firms, non-manufacturing wages are also levelled up. As a consequence, increasing wages cause the production costs of art organizations to spiral beyond what the organization can hope to earn. Therefore live performing arts organizations require increasing support. In other words, arts suffer from a cost disease on account of which they require ever-increasing quantities of subsidy. Even an increased number of orchestral performances may augment the size of the contributions required for solvency. Summarizing, Baumol's cost disease analysis explains the need for subsidy, but not the nonprofit organization

of production and distribution of culture.

In most of the European countries dates and results have confirmed the thesis of Baumol. The hypothesis of the rapid increase in the costs of live performance as well as the incapacity of the cultural organizations to reduce the income gap by increasing prices or by conducting a more aggressive commercial policy, have been verified.

Performing arts organizations can reduce the rate of increase in their production costs by permitting some deterioration in the quality of their product, by having fewer rehearsals, by using less well-trained performers, and by using costumes and scenery of a lower quality. But such a course is never popular with organizations dedicated to quality, and, furthermore, it may lead to loss of audience and community support.

There is one other important way for performing arts to save costs, i.e. through the wages paid to performers. The live performing arts form a rather special labour market, i.e. a market in which the need for great natural ability and extensive training limits the supply, but in which the non-economic returns offer substantial inducement to remain in the field. In other words, the performing arts are relatively insensitive to general wage trends, especially in the short run.

It is mainly for this reason that performing arts organizations in financial difficulty have often managed to shift part of their financial burden back to the performers and the management, who are usually very poorly paid according to commercial standards. An explanation frequently given for this refers to the willingness of those working in these fields to sacrifice money income for the less material pleasures of their participation in the arts. Although there are limits to these financial sacrifices, excess supply continues to be one of the market's most notable characteristics. The tendency of increases in prices to lag behind increases in costs simply means that arts organizations have had to raise larger and larger sums from their contributors. It is therefore not surprising that the survival of the wide majority of performing arts organizations requires a constant flow of financial contributions.

- Hansmann's voluntary price discrimination

Nearly all nonprofit performing arts groups are for a large part dependent on donations. This pattern of financing provides a preliminary explanation for the predominance of the nonprofit form in the cultural field. But why are the performing arts to such a great extent financed by donations?

In other sectors (e.g. education, health) such donative financing for nonprofits sometimes serves as a means to support the private production of public goods. In accordance with this notion, it

has been frequently argued that the performing arts exhibit substantial beneficial externalities which in turn provide a rationale for both public and private subsidies (cf. part II). However, it does not appear that such external benefits are a major stimulus for the donations received by the performing arts groups. Indeed, the evidence proves quite the opposite, for it appears that most donations received by performing arts organizations come from people who actually attend the groups' performances.

Another explanation commonly given is that donations are a private subsidy which makes it possible to keep ticket prices at low levels so that they can be purchased by people who otherwise could not afford them. Yet the vast majority of people attending the performing arts are quite well off. Surely, it is doubtful that the performing arts are organized on a nonprofit basis primarily to provide a way for the rich to subsidize the merely prosperous.

The situation seems rather paradoxical. We have a service, which is basically private, financed partly by donations and partly by revenue from ticket sales. Organizations such as orchestras and resident theatres do not produce primarily public or collective goods: the vast majority of benefits accrues to the purchasers of tickets. Yet, the people who donate are also the people who attend the performances. Moreover ticket prices do not

seem to reflect costs. Hansmann explains the reliance of nonprofit performing arts organizations on donations as a form of voluntary price discrimination according to which some consumers agree to pay more than others for the same service (Hansmann 1981).

Hansmann attributes this arrangement to the price structure of performing arts production. The considerable costs of organizing, directing, rehearsing and providing scenery and costumes for a performing arts production are basically fixed costs, unrelated to the size of the audience. These costs represent a high percentage of the total costs of any presentation; the marginal costs of providing an extra performance or of accommodating an additional consumer are relatively low. Consumer costs must be high enough to cover the total costs of production but low enough to realistically reflect the marginal costs of an additional performance or audience member. As demand for the arts is limited, however, quantity cannot be increased up to the point where fixed costs are covered. In economic terms, the demand curve lies below the cost curve at any given price.

So, to survive, the performing arts organization must set prices to extract from each consumer the value the performance holds for him or her. Selling different quality seats at different prices is one means to accomplish this, but there is a limit to the degree of differentiation in seat qualities and the strategy only works to the extent that people who value arts more highly

also set an unusually high value on good seats. Consequently, orchestras and theatre companies ask for voluntary donations as a means of discriminating with respect to price.

Hansmann's analysis also helps to explain why through the years nonprofit organizations have become increasingly prominent in the performing arts. Because productivity in live performances has not grown at the same pace as productivity in the overall economy, the costs of performing arts productions have increased disproportionately to that of most other goods. From historical evidence it appears that fixed costs have consistently risen at a faster rate than variable costs have, and have thus started to represent an increasingly large share of total costs. These developments have presumably given nonprofit organizations, having access to the means of price discrimination, an increasing advantage over their profit-seeking counterparts which are dependent upon ticket sales alone to cover both fixed and variable costs.

Summarizing, the live performing arts are commonly characterized by fixed costs that are relative high in relation to marginal costs, and by a relatively low overall demand. As a consequence, performing arts groups must often engage in price discrimination if they wish to survive without subsidy. However, the opportunities in the field of effective discrimination through ticket pricing are limited. Therefore, nonprofit firms, which in fact can make use of a system of voluntary price

discrimination, can often survive in areas of the performing arts where profit-seeking firms cannot.

- Weisbrod public goods' theory

We have no explicit economic theories on the relative prevalence of public and nonprofit culture producers and distributors among non-commercial culture producers and distributors. But the more general framework of Weisbrod public good's theory can be extended to the arts (Weisbrod 1977, Weisbrod 1988). The model concentrates on voluntary provision as a response to government failure. He suggested that nonprofit organizations serve as private producers of public goods and that they are financed by voluntary donations from people dissatisfied with low levels of government activity.

According to Weisbrod, non-commercial organizations exist to provide "collective consumption goods", i.e. goods with benefits that cannot be only limited to those who pay for them. In line with the public choice tradition, according to which the political system is assumed to translate voter/consumer preferences into public policy, public enterprise arises when voters agree about the desirability of a collective good and the amount to be provided. Under these circumstances the ability of government to tax (and thus circumvent the free-rider problem) makes it the most logical provider.

However, demand for collective goods often varies strongly from person to person. Weisbrod argues that when this occurs, governmental organizations will tend to provide public goods only at that level that satisfies the average voter; consequently there will be some residual unsatisfied demand for public goods among those individuals whose taste for such goods is larger than that of the average individual. Citizens who prefer a higher level of provision of such a good might therefore set up a private voluntary organization to supplement the government's production. In other words, nonprofit organizations emerge to meet this residual demand by providing public goods in amounts supplementing those provided by government. In short, Weisbrod anticipates that nonprofit organizations will be the first providers, followed by government, of any given collective good, which will grow until consumers become wealthy enough to replace collective goods with privately consumable substitutes. For any given good, demand develops gradually, at different rates for different people.

Applied to some specific cultural fields (libraries, museums) Weisbrod's arguments provide some explanatory leverage. Still, there is much more that the Weisbrod approach does not explain. The performing arts are mostly consumed privately by the same people who donate to the organizations of which they purchase tickets. This economic model cannot explain why nonprofit orchestras, theatre and dance companies exist. Weisbrod even

stated that the larger the private goods component in a "mixed good", the greater the tendency for the profit-seeking organization to supplement governmental provision. In short, refined empirical research is required to verify the ability of the public goods' theory to explain the specific characteristics of organizational structures in the cultural field.

- Conclusion

The economic approaches explain the relative prevalence of different organizational forms in the production and distribution of culture. The Hansmann and Baumol approaches explain the preponderance of nonprofit enterprise in the production and distribution of art forms that are labour-intensive and to the extent that labour-intensiveness is especially characteristic of the high arts, they help to explain the importance of nonprofit firms in these fields. The Weisbrod theory explains the relative dominance of public enterprise in the provision of services (libraries or history museums) having large collective consumption components.

The application of the economic approaches to culture leads to problems in at least three overlapping areas:

1. If the arts are different from other commodities and services, how do they differ and what is the appropriate way to consider them in the context of components and operations in the economic system?

2. There are problems in identifying, measuring and determining the relationships between important variables. Of course, these are problems inherent in economic analysis, but in the case of the arts less background work and less useful data exist than in the case of many other applied areas of analysis.

3. There is an area of problems associated with decision criteria and decision-making arrangements for optimal social welfare. This area includes the well-known problems of welfare theory, such as indeterminacy of optimal choice in plausible collective decision situations, public goods, and differences between private benefits and costs, and social ones; it also includes problems posed by matters beyond the scope of conventional economics, in particular taste and preference formation and the possible relevance of the concept of merit goods in the case of the arts. This requires the introduction of unconventional perspectives.

B. Economic Approaches to Behavioural Differences

1. Economists have quite successfully modelled the behaviour of proprietary firms by assuming that owners and their agents seek to maximize profits and have sufficient information on and control over other participants for the firm to behave in a profit-maximizing manner. Therefore, it has been natural for economic models of nonprofit firms, including cultural organizations, to start making certain assumptions about the goals, or objective functions, of these organizations and to adapt conventional models of firms so as to predict their

behaviour (Hendon & others 1980; Hendon & Shanahan 1983).

Presumably profit maximization is excluded as objective for any legitimate nonprofit organization; consequently, the organization must select other goals. This choice of goals may lie with one or several individuals or groups, including performers, directors, producers, professional managers and donors. The difference between nonprofit cultural organizations and their proprietary counterparts does not lie in the "typical" objectives of the former but in the tendency of nonprofit objective functions to be more heterogeneous and more ambiguous than those of the profit maximizing firm.

Nearly all economic models have stated that nonprofit cultural organizations try to maximize two goals, i.e. artistic quality and size of the audience (Baumol and Bowen 1966; Hansmann 1981; Montias 1983; Throsby and Withers 1979). The models then attempt to predict the behaviour of nonprofit firms by analyzing how a joint quality and audience maximizer would behave under the constraints to which cultural organizations are subject; or they consider the welfare consequences of pursuing different objectives which are consistent with the nonprofit status.

A central focus of such models has been the trade-off between quality and quantity. In general, economists agree that the quality-maximizing culture producer will have smaller audiences or fewer performances than either the audience-maximizing non

profit or the proprietary profit-seeking maximizer, and that the audience-maximizing nonprofit arts will have lower ticket prices and more performances than either the quality maximizer or the profit-seeking cultural firm. Still most cultural economists are very sceptical about such an approach because of the presence of a variety of additional objectives likely to influence the behaviour of nonprofit cultural organizations.

2. Variety of objectives

Because of the centrality of objectives in economic models, it may be useful to briefly consider the main goals of nonprofit arts organizations, confronting the economists' assumptions about these goals with evidence from case studies.

- quality

Economists have made a distinction between two kinds of artistic quality, i.e. innovation and production values. Nonprofit cultural organizations will attempt to maximize quality in one sense or in both senses. Concerning the quality objective there are also differences among organizationally employed artists, often depending on the size of the organizations. Moreover, if we consider boards of trustees as the ultimate decision-making authorities (as, in fact, the law requires) in the nonprofit field, the goals of trustees are the dominant factors in determining the objective function.

A variety of case studies suggests that many boards of trustees may actually play a negative role in artistic quality. In fact, arts organizations vary as regards the objectives of their boards, their managers and their artistic directors as well as in the power that each of these holds in relation to the others. There is some evidence that resident theatres, at least, prefer innovative repertoire.

- Size of the audience

With a few exceptions, most economists have assumed that nonprofit arts providers prefer large audiences not simply for fiscal reasons but as ends in themselves, and that consequently they set ticket prices lower and provide more performances than an optimizing proprietary firm would. A number of economists also assumes that arts organizations seek a broad and socially heterogeneous audience.

In fact, little evidence supports this view, and considerable evidence suggests that most decision-makers in nonprofit arts organizations have a more complex and often ambivalent attitude toward their audiences. This ambivalence can be seen most clearly among trustees, the policy-makers of the nonprofit firm.

- Survival and legitimacy

Economists have assumed that the nonprofit arts organizations attempt to survive; still, they paid little attention to the complex non-market determinants of survival in a grants economy,

especially the importance of organizational legitimacy.

By contrast, case studies of nonprofit arts organizations stress the efforts of their managers to establish the organizations as legitimate institutions within the local cultural community.

3. Stability of objective functions.

There is also some evidence that the objective functions of individual arts organizations are not always stable and that they even change in the course of the life cycle of the nonprofit cultural organization. In the short run, arts managers, like managers of other organizations, switch their attention from goal to goal as various problems arise. Moreover, large arts organizations avoid explicit trade-offs between objectives by conferring responsibility for different goals on different subunits.

In museums, for example, directors may seek to maximize the museum's adherence to standards promoted by the museum profession, curators may do this with respect to the historical value of exhibits, membership staff with respect to the number of popular exhibitions, and educators with respect to the museum's commitment to public service.

4. Ambiguity of objective functions

The objectives of nonprofit cultural organizations are likely to be ambiguous as well as varied. It is questionable as to what

extent major decisions by such organizations can best be described as goal-directed. Moreover, official goals are so abstract as to answer to any number of interpretations. Indeed, the ambiguity of goals permits participants with widely differing interpretations to coexist peacefully in the same organizations, although they cause characteristic tensions within the organization.

Conclusion

The difference between nonprofit cultural organizations and their proprietary counterparts does not lie in the "typical" objectives of the former but in the tendency of nonprofit objective functions to be more heterogeneous and more ambiguous than those of the profit-maximizing firm.

The implications of these behavioural differences between nonprofit and profit-seeking organizations for future research can be summarized as follows:

- Attempts to develop one single best objective-function-based model of the behaviour of nonprofit performing arts organizations are not fruitful;
- nonprofit cultural organizations display a larger heterogeneity of goals;
- nonprofit cultural organizations also display more ambiguity in their objectives with obvious consequences for the internal political systems and decision-making processes.

Case studies on nonprofit cultural organizations suggest four major factors influencing the objectives such organizations pursue:

1. Size and market orientation: Large organizations tend to be averse to risks: they have high fixed costs, with respect both to salaries and maintenance of the actual plant. Organizations that depend on high levels of earned income are similarly averse to risks.

2. Class versus public sponsorship: The level of education and audience diversity as goals are likely to vary according to the extent to which the governance of an arts organization is dominated by members of cohesive local upper classes and the extent to which the organization depends upon the public sector for sponsorship, legitimacy or financial support.

3. Roles and relative influence of artistic staff and trustees: I already mentioned the tendency of different goals to be conferred to specialized subunits of cultural organizations. Perhaps the most important distinction is the one between cultural organizations dominated by their artistic staff and those which are influenced for the greatest part by trustees. Artistic directors and staff are most likely to emphasize quality objectives, whereas trustees tend to focus on legitimacy and survival.

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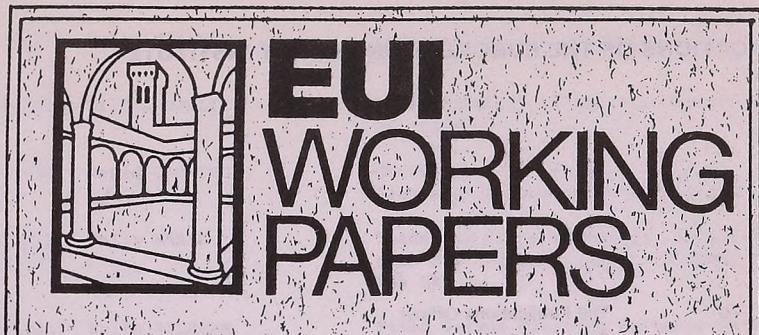
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| 88/353: Niall O'HIGGINS | The Progressivity of Government Taxes and Benefits in Ireland: A Comparison of Two Measures of Redistributive Impact |
| 88/354: Christian JOERGES | Amerikanische und deutsche Traditionen der soziologischen Jurisprudenz und der Rechtskritik |
| 88/355: Summary of Conference,
debates and abstracts
of selected interventions | The Future Financing of the EC Budget: EPU Conference 16-17 October 1987 |
| 88/356: Mary MCCARTHY and
Lucrezia REICHLIN | Do Women Cause Unemployment?
Evidence From Eight O.E.C.D. Countries |
| 88/357: Richard M. GOODWIN | Chaotic Economic Dynamics |
| 88/358: Fernando PACHECO
Eric PEERE and
Francisco S. TORRES | Duopoly Under Demand Uncertainty |
| 88/359: Jaakko NOUSIAINEN | Substance and Style of Cabinet Decision-Making |

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| 88/360: Domenico Mario NUTI | Economic Relations between the European Community and CMEA |
| 88/361: Domenico Mario NUTI | Remonetisation and Capital Markets in the Reform of Centrally Planned Economies |
| 88/362: Domenico Mario NUTI | The New Soviet Cooperatives: Advances and Limitations |
| 88/363: Reiner GRUNDMANN | Marx and the Domination of Nature Alienation, Technology and Communism |
| 88/364: Tony PROSSER | The Privatisation of Public Enterprises in France and Great Britain
The State, Constitutions and Public Policy |
| 88/365: Silke BRAMMER | Die Kompetenzen der EG im Bereich Binnenmarkt nach der Einheitlichen Europäischen Akte |
| 88/366: Goesta ESPING-ANDERSEN | The Three Political Economies of the Welfare State |
| 88/367: Goesta ESPING-ANDERSEN
Paul FARSUND and
Jon Eivind KOLBERG | Decommodification and Work Absence in the Welfare State |
| 88/368: Stephen MARTIN | Joint Ventures and Market Performance in Oligopoly |
| 88/369: Giuseppe RAO | The Italian Broadcasting System: Legal and Political Aspects |
| 89/370: B. BENSaid/
S. FEDERBUSCH/
R.J. GARY BOBO | The Strategic Aspects of Profit Sharing in the Industry |
| 89/371: Klaus-Dieter STADLER | Die Europäische Zusammenarbeit in der Generalversammlung der Vereinten Nationen zu Beginn der Achtziger Jahre |
| 89/372: Jean Philippe Robé | Countervailing Duties, State Protectionism and the Challenge of the Uruguay Round |
| 89/373: Giovanni FEDERICO/
Antonio TENA | On the Accuracy of Historical International Foreign Trade Statistics
Morgenstern Revisited |
| 89/374: Francisco TORRES | Small Countries and Exogenous Policy Shocks |

- 89/375: Renzo DAVIDDI Rouble Convertibility:
A Realistic Target?
- 89/376: Jean STAROBINSKI Benjamin Constant:
La fonction de l'eloquence
- 89/377: Elettra AGLIARDI On the Robustness of Contestability
Theory
- 89/378: Stephen MARTIN The Welfare Consequences of
Transaction Costs in Financial Markets
- 89/379: Augusto De Benedetti L'equilibrio difficile. Linee di
politica industriale e sviluppo
dell'impresa elettrica nell'Italia
meridionale: la Società Meridionale
di Elettricità nel periodo di
transizione, 1925-1937
- 89/380: Christine KOZICZINSKI Mehr "Macht" der Kommission?
Die legislativen Kompetenzen der
Kommission bei Untätigkeit des Rates
- 89/381: Susan Senior NELLO Recent Developments in Relations
Between the EC and Eastern Europe
- 89/382: J. GABSZEWICZ,
P. GARELLA and
Charles NOLLET Spatial Price Competition With
Uninformed Buyers
- 89/383: Benedetto GUI Beneficiary and Dominant Roles in
Organizations: The Case of Nonprofits
- 89/384: Agustin MARAVALL and
Daniel PEÑA Missing Observations, Additive
Outliers and Inverse Autocorrelation
Function
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Performance in Oligopoly
- 89/386: Dalia MARIN Is the Export-Led Growth Hypothesis
Valid for Industrialized Countries?
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- 89/388: Jean Claude CHOURAQUI The Conduct of Monetary Policy: What
has we Learned From Recent Experience?
- 89/389: Léonce BEKEMANS Economics in Culture vs. Culture in
Economics
- 89/390: Corrado BENASSI Imperfect Information and Financial
Markets: A General Equilibrium
Analysis